

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|   |                                |   |                          |
|---|--------------------------------|---|--------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                                | Local Government Name<br><b>WOODLANDS LIBRARY COOPERATIVE</b> | County<br><b>CALHOUN</b> |
| Audit Date<br><b>9/30/05</b>  | Opinion Date<br><b>11/4/05</b> | Date Accountant Report Submitted to State:<br><b>11/17/05</b> |                          |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

| We have enclosed the following:   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   |          |                 | ✓            |

|  |  |                       |                         |
|--|--|-----------------------|-------------------------|
| Certified Public Accountant (Firm Name)<br><b>COOLEY HEHL WOHLGAMUTH &amp; CARLTON, CPAS, PLLC</b> |  |                       |                         |
| Street Address<br><b>ONE SOUTH MONROE STREET</b>   |  | City<br><b>MONROE</b> | State<br><b>MI</b>      |
| Accountant Signature<br><i>Cooley Hehl Wohlgamuth &amp; Carlton</i>                                |  | ZIP<br><b>48161</b>   | Date<br><b>11/16/05</b> |

**WOODLANDS LIBRARY COOPERATIVE**  
Albion, Michigan

ANNUAL FINANCIAL REPORT  
2005 and 2004

# WOODLANDS LIBRARY COOPERATIVE

## ANNUAL FINANCIAL REPORT

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### Independent Auditor's Report

Board of Directors  
Woodlands Library Cooperative  
Albion, Michigan 49224

We have audited the accompanying financial statements of Woodlands Library Cooperative as of and for the years ended September 30, 2005 and 2004, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Woodlands Library Cooperative as of September 30, 2005 and 2004, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2005, on our consideration of Woodlands Library Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4-7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors  
Woodlands Library Cooperative

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Woodlands Library Cooperative's basic financial statements. The schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Woodlands Library Cooperative. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Cooley Hehl Wollgamuth & Carlton". The signature is written in a cursive, flowing style.

November 4, 2005



COOLEY HEHL  
WOHLGAMUTH & CARLTON  
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Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*

Board of Directors  
Woodlands Library Cooperative  
Albion, Michigan 49224

We have audited the basic financial statements of Woodlands Library Cooperative as of and for the years ended September 30, 2005 and 2004, which collectively comprise the Woodlands Library Cooperative's basic financial statements, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Woodlands Library Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Woodlands Library Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Library of Michigan and is not intended and should not be used by anyone other than these specified parties.

*Cooley Hehl Wohlgamuth & Carlton*

November 4, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## WOODLANDS LIBRARY COOPERATIVE

### *Management's Discussion and Analysis* *Years Ended September 30, 2005 and 2004*

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#### **Using this Annual Report**

This annual report consists of the *Independent Auditor's Reports*, the *Management's Discussion and Analysis* (this section), the *basic financial statements*, *other supplemental information*, and *federal financial assistance programs*. The basic financial statements also include notes that explain some of the information in the financial statements and provides more detailed data. The statements are followed by a section of *other supplemental information* and *federal financial assistance programs* that further explains and supports the information in the financial statements.

#### **Required Financial Statements**

The Cooperative's financial statements report information using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about their activities. The statement of Net Assets includes all of the Cooperative's assets and liabilities. This statement provides information about the nature of the assets and the obligations of the Cooperative. In addition, this statement provides the basis for evaluating the capital structure of the Cooperative and assessing the liquidity and financial flexibility of the Cooperative.

All of the revenues and expenses for the current year are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures how well the Cooperative covered the costs for services during the past year. The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to the origins of income, the uses, and the changes in the cash balance during the reporting period.

#### **Condensed Financial Information**

Table I below compares key financial information of the Cooperative's Statement of Net Assets.

**Table I:**

#### **Condensed Statement of Net Assets** **September 30** (in thousands)

|                            | <u>2005</u>    | <u>2004</u>    | <u>2003</u>    |
|----------------------------|----------------|----------------|----------------|
| Total Current Assets       | \$434.3        | \$421.5        | \$392.0        |
| Net Capital Assets         | <u>13.0</u>    | <u>19.4</u>    | <u>5.4</u>     |
| Total Assets               | 447.3          | 440.9          | 397.4          |
| Total Current Liabilities  | <u>8.9</u>     | <u>8.7</u>     | <u>14.2</u>    |
| Invested in Capital Assets | 13.0           | 19.4           | 5.4            |
| Unrestricted Assets        | <u>425.4</u>   | <u>412.8</u>   | <u>377.8</u>   |
| Total Net Assets           | <u>\$438.4</u> | <u>\$432.2</u> | <u>\$383.2</u> |

Net assets increased \$6.2 thousand or 1.4% in 2005 and \$49.0 thousand or 12.8% in 2004.

## WOODLANDS LIBRARY COOPERATIVE

### *Management's Discussion and Analysis* *Years Ended September 30, 2005 and 2004*

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#### **Condensed Financial Information (Concluded)**

The Cooperative's net assets increased by \$6,169 this year compared to \$48,975 in the prior year. The primary reason for the difference was higher contractual costs of delivery and automation services. The Cooperative held a two-day retreat which developed three-year goals and objectives. The State changed its payment of State Aid from 80/20 to 50/50 and delayed the final payment to July. Woodlands had to finance day-to-day operations with reserve funds for nine of the twelve months. The ability to earn interest is reduced due to the time the payments may be invested. The Cooperative is changing delivery service providers October 2005, to reduce costs while improving service by reducing delivery time between libraries.

Table II and the pie charts below compare key financial information of the Cooperative's Statement of Revenues, Expenses, and Changes in Net Assets.

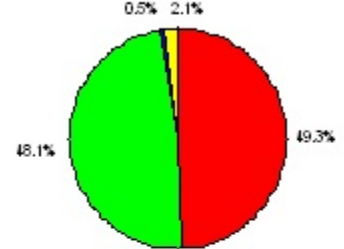
**2005  
Operating Revenues**



**2004  
Operating Revenues**



**2003  
Operating Revenues**



■ Direct state aid ■ Indirect state aid ■ Grants ■ Other

■ Direct state aid ■ Indirect state aid ■ Grants ■ Other

■ Direct state aid ■ Indirect state aid ■ Grants ■ Other

**2005  
Operating Expenses**



**2004  
Operating Expenses**



**2003  
Operating Expenses**



■ Program ■ General/Admin.

■ Program ■ General/Admin.

■ Program ■ General/Admin.

## WOODLANDS LIBRARY COOPERATIVE

### *Management's Discussion and Analysis* *Years Ended September 30, 2005 and 2004*

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**Table II:**

**Changes in Net Assets**  
**Year Ended September 30**  
(in thousands)

|                           | <u>2005</u>    | <u>2004</u>    | <u>2003</u>    |
|---------------------------|----------------|----------------|----------------|
| Operating Revenues        | \$469.6        | \$496.5        | \$450.2        |
| Operating Expenses        | <u>471.1</u>   | <u>449.7</u>   | <u>466.9</u>   |
| Operating Income          | (1.5)          | 46.8           | (16.7)         |
| Net Nonoperating Revenues | <u>7.7</u>     | <u>2.2</u>     | <u>3.6</u>     |
| Changes in Net Assets     | 6.2            | 49.0           | (13.1)         |
| Beginning Net Assets      | <u>432.2</u>   | <u>383.2</u>   | <u>396.3</u>   |
| Ending Net Assets         | <u>\$438.4</u> | <u>\$432.2</u> | <u>\$383.2</u> |

The Cooperative operates with one fund, an enterprise fund on a full accrual basis of accounting similar to private sector companies. The Cooperative's primary source of revenue is from direct and indirect state aid. Direct state aid accounts for 49.5%, while indirect state aid paid by member libraries account for 48.3%. State aid accounts for 97.8% of Woodlands income. These percentages are greater than previous years because federal grants are no longer available and the ability to earn interest income was reduced by the new State Aid payment schedule.

Expenses for resource sharing, technology, advocacy, continuing education, and support services account for the 63.1% and general and administrative costs of 36.9%. Salary costs increased \$6,410 due to a 2.2% pay increase, 27 pay periods during the year, and a special one time bonus of \$1,250 to the staff.

#### **Capital Assets and Debt Administration**

There were no capital asset additions or retirements during the fiscal year. The depreciation expense for the year was \$6,445.

The Cooperative does not have any debt obligations.

#### **Budgetary Highlights**

Over the course of the year, the Governing Board amended the budget to take into account events that occurred during the year. Budgeted revenues were increased from \$471,179 to \$472,379 due to increased interest revenue. State aid payments from the State decreased 1%.

State aid was paid in two payments of 50% each in 2005. The timing of the payments were later in the fiscal year resulting in the Cooperative using its capital reserve to fund parts of its monthly bills for nine months until state aid payments were received.

## WOODLANDS LIBRARY COOPERATIVE

### *Management's Discussion and Analysis Years Ended September 30, 2005 and 2004*

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#### **Budgetary Highlights - Concluded**

Budgeted expenses were \$473,789 and \$454,519 for September 30, 2005 and 2004 respectively. Increased expenses occurred in contract services with the delivery account increasing \$8,725 to provide statewide delivery system for October to December 2005. The prepayment was made to avoid having to pay in October 2006, since no income is received until mid-November. Switching to statewide delivery reduces 2005-06 delivery costs by \$12,000 and provides increased delivery stops at our four largest libraries. Office supplies increased \$650 with the purchase of a replacement desktop computer. ILL service fees increased \$4,000, when OCLC switched from transaction based fees to a subscription service fee. Woodlands held a two-day, long range planning retreat in May 2005 to develop goals and objectives for the Cooperative.

#### **Economic Factors and Next Year's Budgetary Highlights**

State aid revenue was based on 43.5 cents per capita, 13% below the 50 cents cap. State Aid for 2005-06 was further reduced \$1.5 million dollars. While the Legislature held Cooperatives harmless, the \$1.5 million reduction was taken from the individual libraries state aid payments reducing their share to 71.8 cents per capita, a reduction of 15.2 cents per capita. This reduction has a direct impact on the Cooperative since member libraries purchase services from the Cooperative. Overall State Aid income is projected to decrease 9% (\$39,413) from last year. The Cooperative State Aid remains an unstable funding source for Cooperatives and libraries, based on the State of Michigan's budget crisis. The Cooperative established a policy of retaining one half of the annual budget as a reserve.

The State Library developed Quality Services Audit Checklist requirements for the Cooperative. During the past year, Woodlands achieved the essential level by updating its policies. However, to achieve the enhanced level, state aid funding will either have to be increased or services reduced or dropped to fund new requirements. In order to meet the excellent requirements, the Cooperative will require additional staffing and funding.

#### **Contacting the Cooperative's Financial Management**

This financial report is designed to provide the Cooperative's citizens, taxpayers, customers, and creditors with a general overview of the Cooperative's finances. If you have any questions about this report or need additional financial information, contact the Woodlands Library Cooperative, 415 South Superior, Suite A, Albion, MI 49224-2135.

## **BASIC FINANCIAL STATEMENTS**

# WOODLANDS LIBRARY COOPERATIVE

## *Statements of Net Assets September 30, 2005 and 2004*

|                                  | 2005      | 2004      |
|----------------------------------|-----------|-----------|
| <b>Assets</b>                    |           |           |
| Current Assets:                  |           |           |
| Cash                             | \$401,872 | \$400,712 |
| Accounts receivable              | 0         | 250       |
| Prepaid expenses                 | 32,384    | 20,517    |
| Total Current Assets             | 434,256   | 421,479   |
| Capital Assets:                  |           |           |
| Office equipment                 | 30,111    | 30,111    |
| Furniture and fixtures           | 5,204     | 5,204     |
| Other equipment                  | 30,046    | 30,046    |
| Less: Allowance for depreciation | 65,361    | 65,361    |
| Total Capital Assets             | 52,361    | 45,916    |
| Total Capital Assets             | 13,000    | 19,445    |
| Total Assets                     | 447,256   | 440,924   |
| <b>Liabilities</b>               |           |           |
| Current Liabilities:             |           |           |
| Due to other governmental units  | 143       | 143       |
| Due to video consortium          | 1,326     | 1,049     |
| Other liabilities                | 7,416     | 7,530     |
| Total Liabilities                | 8,885     | 8,722     |
| <b>Net Assets</b>                |           |           |
| Invested in capital assets       | 13,000    | 19,445    |
| Unrestricted                     | 425,371   | 412,757   |
| Total Net Assets                 | \$438,371 | \$432,202 |

See accompanying notes to the basic financial statements.

## WOODLANDS LIBRARY COOPERATIVE

### *Statements of Revenues, Expenses, and Changes in Net Assets For the Years Ended September 30, 2005 and 2004*

|   | 2005      | 2004      |
|---|-----------|-----------|
| <b>Operating Revenues</b>               |           |           |
| State Aid to Cooperative                | \$232,652 | \$233,111 |
| State Aid from Members                  | 226,692   | 226,529   |
| Reed Act Grant                          | 0         | 24,389    |
| Other                                   | 10,277    | 12,466    |
| Total Operating Revenues                | 469,621   | 496,495   |
| <b>Operating Expenses</b>               |           |           |
| Programs:                               |           |           |
| Interloan and reference                 | 71,178    | 67,261    |
| Delivery                                | 93,586    | 93,763    |
| Union database                          | 128,345   | 120,301   |
| Periodical purchasing                   | 4,200     | 4,000     |
| Member purchasing/Merit fees            | 0         | 546       |
|   | 297,309   | 285,871   |
| General and administrative              | 173,867   | 163,883   |
| Total Operating Expenses                | 471,176   | 449,754   |
| Net Operating Income (Loss)             | (1,555)   | 46,741    |
| <b>Nonoperating Revenues (Expenses)</b> |           |           |
| Interest                                | 7,724     | 2,234     |
| <b>Change in Net Assets</b>             | 6,169     | 48,975    |
| Net Assets - Beginning of Year          | 432,202   | 383,227   |
| Net Assets - End of Year                | \$438,371 | \$432,202 |

See accompanying notes to the basic financial statements.

# WOODLANDS LIBRARY COOPERATIVE

## *Statements of Cash Flows* *For the Years Ended September 30, 2005 and 2004*

|  | 2005             | 2004             |
|--|------------------|------------------|
| <b>Cash Flows from Operating Activities:</b>   |                  |                  |
| Receipts from State, members, and grants   | \$470,148        | \$493,773        |
| Payments to suppliers  | (384,423)        | (374,886)        |
| Payments to employees  | (92,289)         | (85,879)         |
| Net Cash Provided (Used) by Operating Activities   | (6,564)          | 33,008           |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                               |                  |                  |
| Acquisition of capital assets  | 0                | (16,400)         |
| <b>Cash Flows from Investing Activities:</b>   |                  |                  |
| Interest   | 7,724            | 2,234            |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                    | 1,160            | 18,842           |
| Cash and Cash Equivalents - Beginning of Year  | 400,712          | 381,870          |
| Cash and Cash Equivalents - End of Year  | <u>\$401,872</u> | <u>\$400,712</u> |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>         |                  |                  |
| Operating Income (Loss)  | (\$1,555)        | \$46,741         |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: |                  |                  |
| Depreciation   | 6,445            | 2,395            |
| Changes in assets and liabilities:   |                  |                  |
| (Increase) Decrease in assets:   |                  |                  |
| Accounts receivable  | 250              | 3,017            |
| Prepaid expenses   | (11,867)         | (13,606)         |
| Increase (Decrease) in liabilities:  |                  |                  |
| Due to video consortium  | 277              | (16)             |
| Other liabilities  | (114)            | 200              |
| Deferred revenue   | 0                | (5,723)          |
| Total Adjustments  | (11,454)         | (16,128)         |
| Total cash provided by operating activities  | <u>(\$6,564)</u> | <u>\$33,008</u>  |

There were no noncash investing and financing transactions for the years ending September 30, 2005 and 2004.

See accompanying notes to the basic financial statements.

# WOODLANDS LIBRARY COOPERATIVE

## *Notes to Financial Statements* *Years Ended September 30, 2005 and 2004*

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### Note 1      Purpose

The financial statements of the Cooperative include all accounts controlled by or dependent on the Cooperative board. The purpose of Woodlands Library Cooperative is to: (1) extend and improve access to library services and materials for each child, youth, and adult of the Cooperative region appropriate to his or her informational and recreational needs; (2) improve and strengthen resources and services of member libraries; (3) encourage continued growth and development of library services to the citizens of the State of Michigan.

### Note 2      Authority

The establishment of the Cooperative is based on Public Act 89 of 1977.

### Note 3      Summary of Significant Accounting Policies

The accounting policies of the Cooperative conform to accounting principles generally accepted in the United States of America applicable to governments. The financial activities of the Cooperative are recorded within one fund, categorized and described as an enterprise fund. This enterprise fund reports operations that provide services which are financed primarily by direct and indirect state aid.

Significant accounting policies followed by Woodlands Library Cooperative are described below to enhance the usefulness of the financial statements to the reader:

#### a) Basis of Accounting

The Cooperative's financial statements are prepared on the accrual basis of accounting; consequently, revenues are recognized when they are earned and expenses are recognized when they are incurred. Operating revenues are charges for all exchange transactions for services which include direct state aid, indirect state aid, and grants. Operating expenses are all the costs necessary to provide services and conduct programs. General and administrative costs are also operating expenses. Nonoperating revenues represent revenue sources that are primarily non-exchange in nature such as interest.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

#### b) Capital Assets

Items capitalized are valued at cost and depreciated by the straight-line method over the estimated useful lives of the assets. The Cooperative maintains a capitalization threshold of one thousand dollars.

Depreciation expense was \$6,445 for 2004-05 and \$2,395 for 2003-04. The following estimated lives were used to determine the depreciation expense for the periods ending September 30, 2005 and 2004:

|                  |           |
|------------------|-----------|
| Office Equipment | 5 years   |
| Furniture        | 10 years  |
| Other Equipment  | 3-5 years |

#### c) Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Woodlands Library Cooperative considers cash and petty cash as cash and cash equivalents.

## WOODLANDS LIBRARY COOPERATIVE

### *Notes to Financial Statements Years Ended September 30, 2005 and 2004*

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Note 3      Summary of Significant Accounting Policies (Concluded)

d) Governmental Accounting Standards Board

In accordance with GASB Statement 20, the Cooperative has elected not to apply the FASB statements and interpretations issued after November 30, 1989, to its financial statements.

Note 4      Deposits With Financial Institutions

Statutes authorize Woodlands Library Cooperative to invest in obligations of the U.S. Treasury, agencies, and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; banker's acceptances of U.S. bank repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency.

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At September 30, 2005, Woodlands Library Cooperative had invested in such a fund with a local bank. The Cooperative is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The Cooperative believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the Cooperative evaluates each financial institution with which it deposits Cooperative funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Board of Directors has adopted an investment policy authorizing certain types of investments and authorized the depositories: National City Bank and Homestead Savings Bank. The carrying amount of deposits is displayed on the balance sheet as cash.

*Interest rate risk.* The Cooperative's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Cooperative will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the Cooperative's investment policy.

*Concentration of credit risk.* The Cooperative does not place any limits on the amount the Cooperative may deposit or invest in any one issuer.

# WOODLANDS LIBRARY COOPERATIVE

## Notes to Financial Statements Years Ended September 30, 2005 and 2004

### Note 4      Deposits With Financial Institutions (Concluded)

*Custodial credit risk.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the Cooperative's deposits may not be returned or the Cooperative will not be able to recover the collateral securities in the possession of an outside party. The Cooperative has \$401,872 and \$400,712 for 2005 and 2004 respectively invested in checking accounts and money markets. The Cooperative's deposits are insured by the FDIC in the amount of \$12,202 and \$12,483 for 2005 and 2004 respectively, with uninsured deposits of \$420,000 and \$390,000 for 2005 and 2004 respectively. The Cooperative's deposits are at institutions with an established record of fiscal health and service. The Cooperative Board approves and designates a list of authorized depository institutions. The Cooperative's investment policy does not address deposit risk.

*Foreign currency risk.* The Cooperative is not authorized to invest in investments which have this type of risk.

### Note 5      Capital Assets

Capital asset activity for the year ended September 30, 2005 was as follows:

|                                   | Balance at<br>October 1, 2004 | Additions | Retirements | Balance at<br>September 30, 2005 |
|-----------------------------------|-------------------------------|-----------|-------------|----------------------------------|
| Capital assets being depreciated: |                               |           |             |                                  |
| Office equipment                  | \$30,111                      | \$0       | \$0         | \$30,111                         |
| Furniture and fixtures            | 5,204                         | 0         | 0           | 5,204                            |
| Other equipment                   | 30,046                        | 0         | 0           | 30,046                           |
| Totals at historical cost         | 65,361                        | 0         | 0           | 65,361                           |
| Less accumulated depreciation:    |                               |           |             |                                  |
| Office equipment                  | (5,204)                       | 0         | 0           | (5,204)                          |
| Furniture and fixtures            | (23,354)                      | (1,777)   | 0           | (25,131)                         |
| Other equipment                   | (17,358)                      | (4,668)   | 0           | (22,026)                         |
| Total accumulated depreciation    | (45,916)                      | (6,445)   | 0           | (52,361)                         |
| Net capital assets                | \$19,445                      | (\$6,445) | \$0         | \$13,000                         |

### Note 6      State Aid to Cooperative

The State granted aid directly to library cooperatives based on a rate per capita of \$0.435 for 2004-05 and \$0.436 for 2003-04.

### Note 7      State Aid from Members

The State granted aid to public libraries belonging to a cooperative to purchase services which are provided by the cooperative. The rate per capita of \$0.435 for 2004-05 and \$0.436 for 2003-04 was based on the "qualified" populations in the service areas of the public libraries.

## WOODLANDS LIBRARY COOPERATIVE

### *Notes to Financial Statements* *Years Ended September 30, 2005 and 2004*

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Note 8      Expenses

The Cooperative incurred the following expenses to member libraries during the fiscal year ended September 30, 2005 and 2004 for contracted services, projects and grants:

|                               | 2005             | 2004             |
|-------------------------------|------------------|------------------|
| <u>Payee</u>                  | <u>Amount</u>    | <u>Amount</u>    |
| Monroe County Library System  | \$168,695        | \$161,588        |
| Lenawee County Library        | 12,565           | 12,693           |
| Van Buren Library             | 10,654           | 10,244           |
| Branch County Library         | 7,808            | 7,596            |
| Delton District Library       | 7,689            | 7,176            |
| Southwest Library Cooperative | 20,625           | 22,500           |
| Michigan Library Consortium   | 300              | 900              |
|                               | <u>\$228,336</u> | <u>\$222,697</u> |

Note 9      Compensated Absences

Woodlands Library Cooperative does accrue vacation pay for its employees as of the year end. The amount of unused vacation pay was \$7,416 and \$7,530 as of September 30, 2005 and 2004, respectively.

Note 10      Pension Plan

The Cooperative provides a defined contribution pension benefit plan for employees who are at least 21 years old and have completed one year of service. The plan is through American Express Financial Services and was effective October 1, 1994. The Cooperative contributes 10% of the employee's wages to the plan and they are 100% vested immediately. Employees are not required to contribute to the plan. The costs for the fiscal years ending September 30, 2005 and 2004, were \$9,097 and \$8,819, respectively. For the fiscal year ending September 30, 2005, the covered payroll was \$91,180 out of a total payroll of \$94,940. For the fiscal year ending September 30, 2004, the covered payroll was \$85,879 out of a total payroll of \$88,312.

## **OTHER SUPPLEMENTAL INFORMATION**

## WOODLANDS LIBRARY COOPERATIVE

### *Schedules of General and Administrative Expenses September 30, 2005 and 2004*

|                                  | 2005             | 2004             |
|----------------------------------|------------------|------------------|
| Salaries                         | \$92,289         | \$85,879         |
| Board members                    | 2,295            | 2,072            |
| Payroll taxes                    | 7,263            | 6,738            |
| Employee benefits                | 20,614           | 18,975           |
| Pension                          | 9,097            | 8,819            |
| Workers' compensation            | 438              | 412              |
| Postage                          | 618              | 2,071            |
| Office supplies                  | 2,262            | 1,877            |
| Office internet                  | 500              | 500              |
| Periodicals                      | 179              | 171              |
| Contracted services              | 3,200            | 3,000            |
| Reed Act Grant                   | 0                | 7,723            |
| Reed Act Grant - training center | 0                | 1,335            |
| Professional services            | 4,520            | 3,910            |
| Memberships                      | 914              | 984              |
| Telephone                        | 1,328            | 1,741            |
| Travel                           | 4,613            | 3,433            |
| Printing                         | 0                | 123              |
| General insurance                | 455              | 482              |
| Repair and maintenance           | 1,920            | 612              |
| Office rent                      | 8,400            | 8,400            |
| Training                         | 1,602            | 1,846            |
| Retreat                          | 4,343            | 0                |
| Bank charges                     | 572              | 385              |
| Depreciation                     | 6,445            | 2,395            |
|                                  | <u>\$173,867</u> | <u>\$163,883</u> |



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Woodlands Library Cooperative  
Albion, Michigan 49224

Our audit of the financial statements of the Woodlands Library Cooperative for fiscal year ended September 30, 2005 was made in accordance with auditing standards generally accepted in the United States of America. These standards require, in addition to obtaining competent evidential matter through inspection, observation, inquiry, and confirmation, that we determine that existing internal controls, accounting procedures, and accounting records are adequate to allow us to express an opinion on the financial statements of the Cooperative.

As a result of our audit, we do not have any comments or recommendations that should be brought to the attention of the Board.

We wish to express our appreciation for the continuing cooperation and courtesy extended to us by all employees of the Cooperative.

Very truly yours,

November 4, 2005